

Aon Master Trust MARKET UPDATE



Quarter ended 31 December 2010

Overseas markets strengthened in 2010

Global markets were characterised by exuberance in the last quarter of 2010. Markets rallied strongly in October, fuelled by expectations that November's US Federal Reserve decision on monetary policy would support financial assets for the rest of 2010. Although the program failed to deliver that result, improving US economic data has lifted growth expectations for 2011 and increased investor appetite for riskier assets.

Governments are struggling to reduce budget deficits and allay fears of defaults. The challenges are compounded by lower tax revenues given the weak earnings in many countries. In Europe, Ireland came under fire. Investors were unconvinced by government assurances that the country had adequate funding through to mid-2011 and Irish bond prices continued to fall. To placate the bond market, Ireland successfully applied to the European Central Bank for a bailout in November. After bailout packages for Greece, and now Ireland, European sovereign debt is likely to remain a concern in 2011.

Inflation in China continues to grow well above the government's 3% target, with food prices (a major component of the Consumer Price Index in China) rising 11.7% year-on-year in November. Market observers remain sceptical as to whether recent interest rate hikes will be enough to slow down price inflation.

Six successive interest rate increases, fierce competition and the dramatic growth in online shopping sales contributed to a glum festive season for Australian retailers. Bricks-and-mortar retailers were the hardest hit, with many negative trading reports (including the Reject Shop and Harvey Norman).

Australian shares

The Australian share market rose by 4.7% in the quarter due mainly to exceptional strength in commodity-based industries (mining and resources sectors in particular). Despite this strength, the share market rose only 1.9% over the calendar year. In 2010, many commodities such as copper and coal hit or exceeded the record highs of 2008 as the global economy

appeared to be gaining momentum. The retail sector fell significantly (-10.6%) over the quarter. Consumers shopped carefully, turning towards competitively-priced online shopping overseas and were spooked by another hike in the official cash rate in November.

International shares

As the economic recovery grew more resilient, 2010 was the first year since 2005 that commodities, stocks, bonds and the US dollar all rose. Strong third-quarter earnings and central bank intervention in Europe helped investors shrug off a disappointing November.

Commodity rich countries such as Canada and Norway strengthened as did US shares and UK, European and Japanese stocks. Emerging market stocks gained on commodity strength and robust earnings amongst Chinese banks.

Materials (16.3%) and Energy (16.6%) sectors performed best as risk appetite picked up. Defensive counterparts Utilities (2.2%) and Healthcare (2.9%) lagged.

Property

Global property securities finished the quarter strongly, returning 5.8% in AUD hedged terms. The global listed property market closed out 2010 with a healthy 18.8% return. Nearly all

sectors delivered positive returns with Lodging/Resorts (18.7%) the clear leader.

While affected by sovereign debt issues early in the quarter, the European market bounced back in December (albeit with mixed country-by-country results) on renewed optimism for a Euro bailout. A more positive environment (including better than expected third-quarter earnings) buoyed US real estate markets. In contrast, different dynamics in Australia led to a decline in the Australian listed property market over the quarter and year ended 31 December 2010. Japan was the strongest performer in Asia while government policy continues to cloud the listed market in China.

Fixed interest

Yields rose throughout the quarter on the back of global developments, including the US stimulus package.

The Reserve Bank of Australia (RBA) surprised the markets with a 0.25% official cash rate increase in November, citing wariness of future inflation pressures driven by the mining boom and the impact of strong terms of trade. Low GDP growth and retail sales during the quarter helped to limit the extent of losses in Australian bonds.

For the calendar year, bonds returned 6.0% (Australian) and over 9% (international).

| Performance to 31 December 2010 | 3 mth % | 1 yr % | 3 yr % pa | 5 yr % pa | 10 yr % pa | Index used |
|-------------------------------------|---------|--------|-----------|-----------|------------|---|
| Australian shares | 4.7 | 1.9 | -5.0 | 4.4 | 8.5 | S&P/ASX 300 |
| International shares (\$A hedged) | 9.2 | 12.6 | -4.5 | 1.7 | 2.3 | MSCI World Net Dividends Reinvested Accumulation Index (\$A Hedged) |
| International shares (\$A unhedged) | 2.9 | -1.9 | -9.6 | -4.2 | -3.8 | MSCI World Net Dividends Reinvested Accumulation Index |
| Australian listed property | -1.2 | -0.7 | -21.4 | -9.8 | 2.2 | S&P/ASX 300 A-REIT |
| Australian fixed interest | -0.2 | 6.0 | 7.4 | 5.8 | 5.9 | UBSA Composite Bond All Maturities |
| International fixed interest | -0.5 | 9.3 | 8.8 | 7.5 | 7.8 | Barclays Capital Global Aggregate HDG AUD |
| Cash | 1.2 | 4.7 | 5.2 | 5.7 | 5.5 | UBSA 90 Day Bank Bill |

Source: Russell Investments
Note: Past performance should not be considered a guide to future performance.

The information in this document is general in nature and should not be relied on as advice (personal or otherwise) as your personal needs, objectives and financial situation have not been considered. Before deciding whether a particular Aon Master Trust product is right for you, please consider the relevant Product Disclosure Statement or talk with your financial adviser. If you do not have an adviser but would like to be put in touch with one, call us on 1300 880 588 or email contactaon@pillar.com.au.

This document has been prepared by Aon Consulting Pty Limited (ABN 48 002 288 646, AFSL 236667) a related body corporate of the trustee of the Aon Master Trust (ABN 68 964 712 340), Aon Superannuation Pty Limited (ABN 83 057 982 822, AFSL 237465). This is a relationship that might reasonably be expected to be capable of influencing Aon Consulting Pty Limited when the company provides financial product advice to clients in respect of the Aon Master Trust.

While every care has been taken in the production of this document and the information contained in it has been obtained from sources that Aon Consulting Pty Limited believes to be reliable, Aon Consulting Pty Limited does not make any representation as to the accuracy of this document and accepts no liability for any loss incurred by any person who may rely on it. In any event the recipient of this document shall be entirely responsible for their use of this document.

© 2011 Aon Consulting Pty Limited.